United States Court of Appeals

FOR THE NINTH CIRCUIT

DICK E. STEARNS and THE D. E. STEARNS COMPANY, a partnership composed of Dick E. Stearns and Ellen Belson Stearns, *Appellants*,

v.

TINKER & RASOR, a corporation, JOHN P. RASOR and LEO H. TINKER, *Appellees*,

TINKER & RASOR, a corporation, JOHN P. RASOR and LEO H. TINKER, *Appellants*,

v.

DICK E. STEARNS and THE D. E. STEARNS COMPANY, a partnership composed of Dick E. Stearns and Ellen Belson Stearns, *Appellees*

No. 15,111

Dec. 27, 1957

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PETITION FOR REHEARING

Of Counsel:
H. CALVIN WHITE
BROWNING, SIMMS, HYER AND EICKENROHT

JAMES B. SIMMS
Counsel for Petitioners

ALPHA LAW BRIEF CO., 402 M & M BLDG., HOUSTON 2

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PETITION FOR REHEARING

Rehearing is sought for that part of the appeal of Dick E. Stearns et al. pertaining to the question of misuse of the Stearns patent by the D. E. Stearns Company.

Rehearing is sought based on each of the following grounds:

1. The Stearns Company by granting licenses has made available to users the Patented Apparatus, separately, and thus its business policy has complied with the recommendation of the court which appears at the top of page 23 of the opinion, namely:

> "Probably the best way for an owner of such a patent to protect himself from a charge of misuse would be to offer or stand ready to offer the patented item alone."

2. The court's ruling of misuse is based upon Finding of Fact 51 quoted at page 20. Sections (c) and (d) of this Finding, and subsidiary Findings 54 and 55, are not supported by any evidence and are contrary to the effect of the licenses offered by the Stearns Company, which are a part of the Stearns Company's "exclusive exploitation policy."

3. The court having held, as stated at the top of page 23 of its opinion, that a leasing program "per se" does not prove misuse—the licenses, the legal effect of which is to give up a part of the monopoly granted by the patent, can not couple with the lease to extend the monopoly to the unpatented Electrical Apparatus.

These three grounds for rehearing will be explained in the order of their listing.

Ground 1

The business policy of the Stearns Company includes both the leasing of its own holiday detectors and the

granting of licenses under the invention of U. S. patent 2,332,182. It is submitted that the licenses comply with this court's recommendation quoted above because by the licenses they offer the Patented Apparatus alone.

The Stearns' licenses, Defendants' Exhibits AA and BB, license only the "electrode-pusher combination." The court states that this is the scope of the licenses, at page 23 of its opinion. By Stearns' license program the Patented Apparatus is offered to a user on the following bases:

> (a) Equipment suppliers may be licensed to use, lease and sell the Patented Apparatus.
>
> (b) An ultimate consumer or customer may be licensed to make or have made and to use the Patented Apparatus.
>
> (c) An ultimate consumer or customer may either purchase or lease the Patented Apparatus from a licensed equipment supplier.

The users of equipment thus may secure the Patented Apparatus alone or as a complete holiday detector. After granting the license and receiving the royalty, Stearns has no control over or revenue from the Patented Apparatus.

Under the Stearns' licenses, Tinker & Rasor, as an equipment supplier, could have offered their Patented Apparatus both for sale and for lease. A purchaser of a Tinker & Rasor Patented Apparatus would thereby receive for the royalty payment the right to use the electrode-pusher combination and any replacement parts for the life of the patent. This patented combination could be used with any Electrical Apparatus.

Under the Stearns' license to lease, Tinker & Rasor would need pay only $250 for each Patented Apparatus in operation. For example, if they had ten such combinations under lease to others at any one time, they would make ten payments of $250 each. If they added to the total number of their leased Patented Apparatus leased out at one time, they would make one royalty payment for each additional patented combination. These combinations could be repeatedly leased separately or as a part of a complete detector with no further royalty payment, for the life of the patent.

These same licenses were available to the ultimate consumer, who was free to make or buy the Patented Apparatus wherever he wished and to use it with any Electrical Apparatus, regardless of source.

The actual Stearns' licensees include both ultimate consumers and suppliers of equipment. (Licensees listed page 562 of Record.)

From the above it is believed clear that the licensing program of Stearns, coupled with its lease, constitutes full compliance with the court's recommendation.

Ground 2.

From the above it will be seen that Finding 51, quoted at page 20 of the court's opinion, is clearly erroneous in that both Sections (c) and (d) failed to take into account the factual effect of the licensing program. The entire case of misuse is submitted to have been based upon this erroneous Finding.

Clearly Section (c) does not take into account the licenses which make available the Patented Apparatus irrespective of whether it is connected with or not connected with the Electrical Apparatus. Section (c) reads:

> "(c) It will not make the Patented Apparatus available except in conjunction with and tied to the Electrical Apparatus."

Likewise Section (d) is diametrically contrary to the licensing program. Section (d) reads:

> "(d) It requires users to lease the apparatus as a whole."

Thus, it is seen that the "exclusive exploitation policy" as found by the District Court in Finding 51 is clearly erroneous in view of the licensing program. This applies equally to Findings 54 and 55. These Findings were the fundamental basis of the whole theory of misuse.

Ground 3.

Another consideration is whether the Stearns' lease and licenses are proper when considered collectively:

The court has stated at the top of page 23 of the opinion:

> "The mere fact that an owner of a patented article combines the article with an unpatented article and sells or leases the unit as a whole does not *per se* prove misuse."

No fault has been found with the provisions, per se, of the lease. The only question then is, as this court indicated on page 24 of its opinion, whether or not the licensing policy coupled with the lease provides a more effective way to extend the patent to unpatented apparatus.

If the lease were Stearns only method of doing business, all users would have to lease complete machines from Stearns or be liable as infringers. The licenses make it possible for them to obtain the Patented Apparatus separately and, therefore, serve to relinquish a part of the patent monopoly instead of extending it. The licensees may make, buy, use, lease, and sell the patented combination in any manner in which they desire and need only pay the required royalty to Stearns. In other words, Stearns thereafter has no semblance of control over or revenue from either the patented parts, the unpatented parts, or the holiday detector as a unit. Competition is completely free and unfettered.

How, then, can the licenses couple with the lease "to more effectively require one who desires to use the patented article to pay a premium on the unpatented part * * * as though the whole apparatus was patented"?

Summary

These contentions of Stearns will be recognized by the court as not newly taken, but it is believed that they present the factual effect of the licenses in a light that the court has not previously appreciated. The position of the licenses as a part of the Stearns' "exploitation policy," or business policy, is emphasized.

The question before this court is—Is it not proper for a patent owner to exploit a Patented Apparatus which forms a part of a machine by leasing the machine, and offering the Patented Apparatus separately, under non-exclusive licenses which permit utilization of the invention with no strings attached?

Respectfully submitted,

JAMES B. SIMMS
Counsel for Petitioners

Of Counsel:
H. CALVIN WHITE
BROWNING, SIMMS, HYER
AND EICKENROHT

Certificate of Counsel

It is hereby certified that in the judgment of counsel the foregoing Petition for Rehearing is well founded and is not interposed for purposes of delay.

JAMES B. SIMMS
Counsel for Petitioners

Certificate of Service

Three copies of the foregoing Petition for Rehearing were mailed to Edward B. Gregg, 410 Mills Building, San Francisco 4, California the _____ day of January, 1958.